



A Couple of Comments on Carmen Reinhart's “Monetary Policy, Inflation and Recovery in the Aftermath of COVID-19”

**BANCO CENTRAL DE RESERVA DEL PERÚ
CENTENARY CONFERENCE**

(BCRP-BIS), March 24, 2022

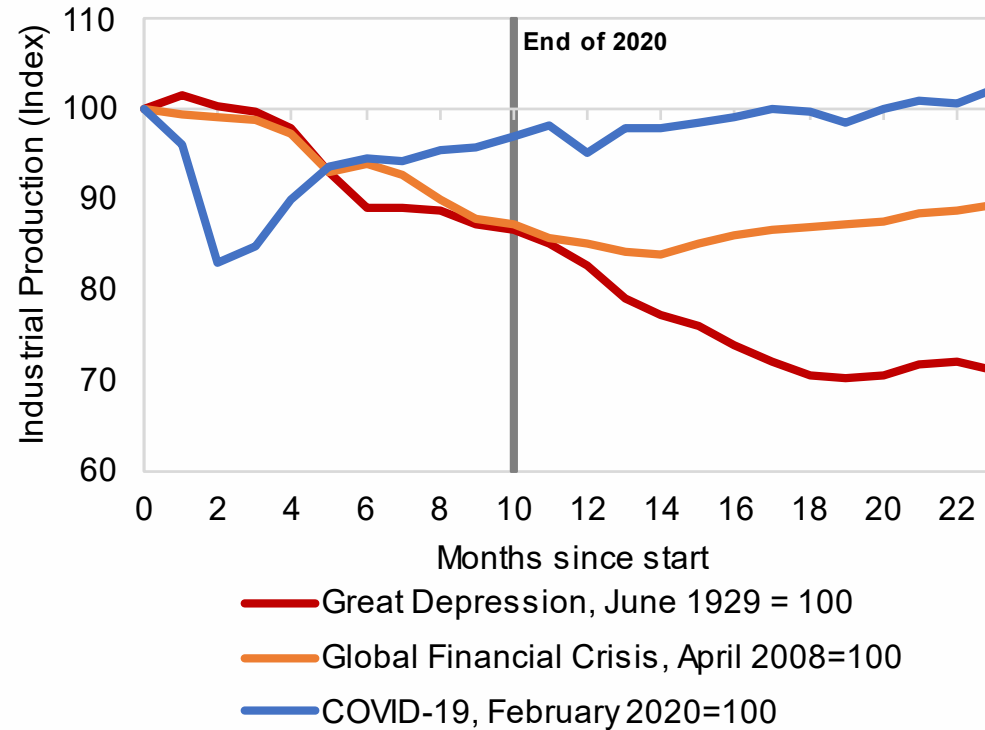
Vitor Gaspar

Director

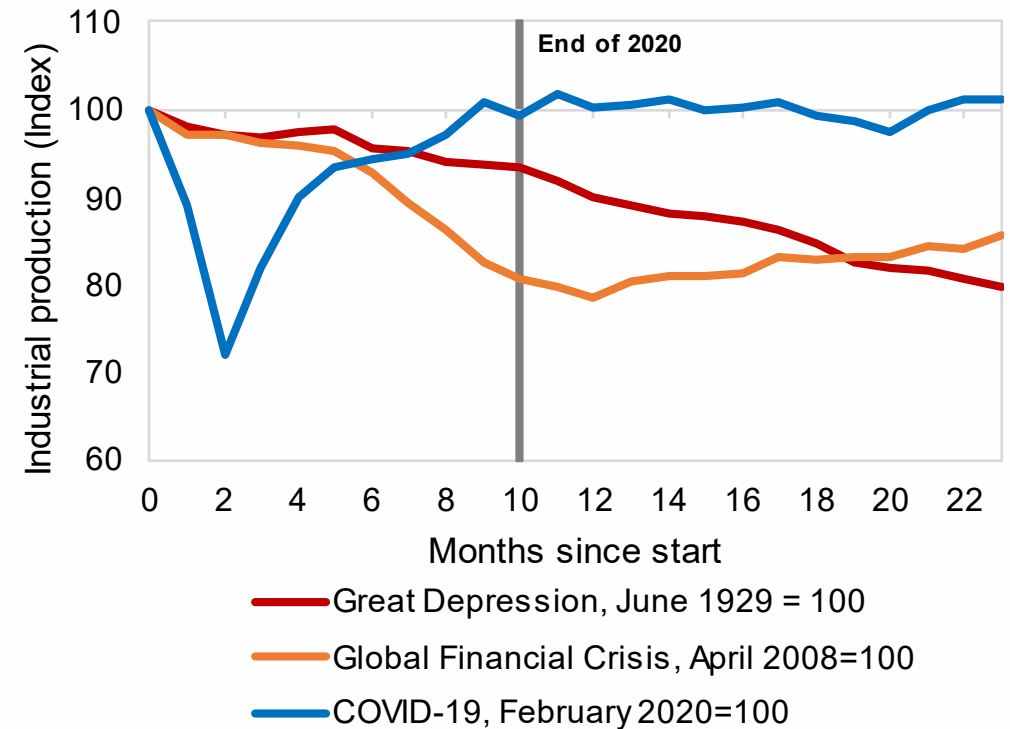
Fiscal Affairs Department

Deep and Sudden Recession, Quick and Vigorous Recovery

United States Industrial Production



Euro Area Industrial Production

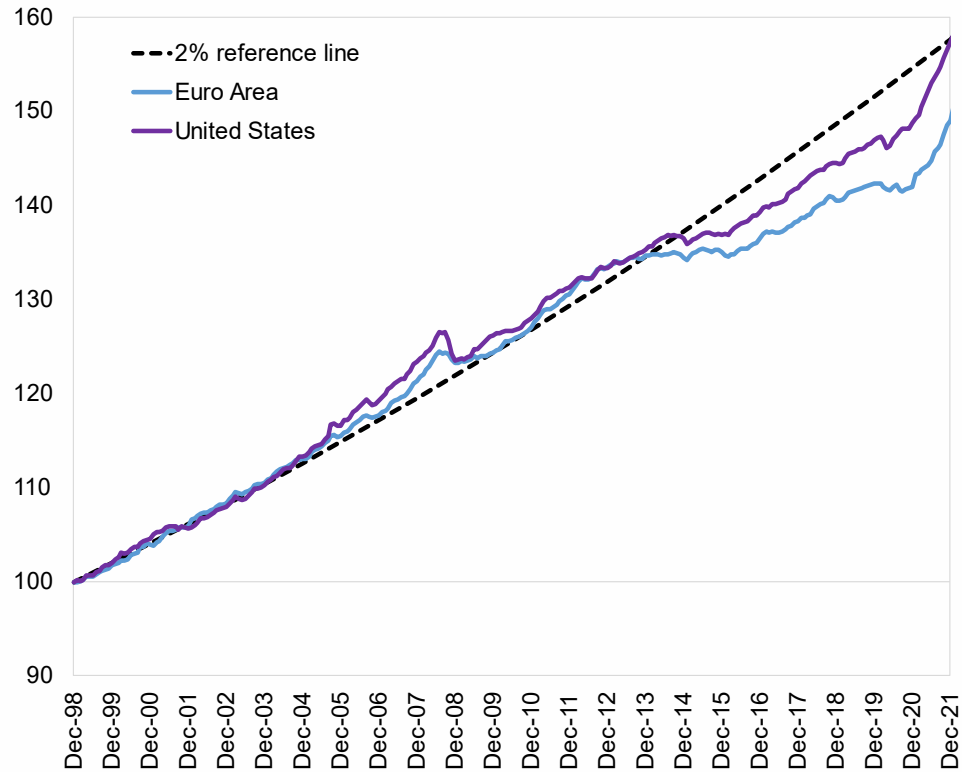


Source: Organization for Economic Cooperation & Development (OECD); Federal Reserve Bank of St. Louis (FRED Database); Statistical Office of the European Communities/Haver Analytics; Eichengreen, B. and K.H. O'Rourke. 2010 & 2012. "A Tale of Two Depressions.", VOX EU Center for Economic Policy & Research blog (<https://voxeu.org/article/tale-two-depressions-redux>)

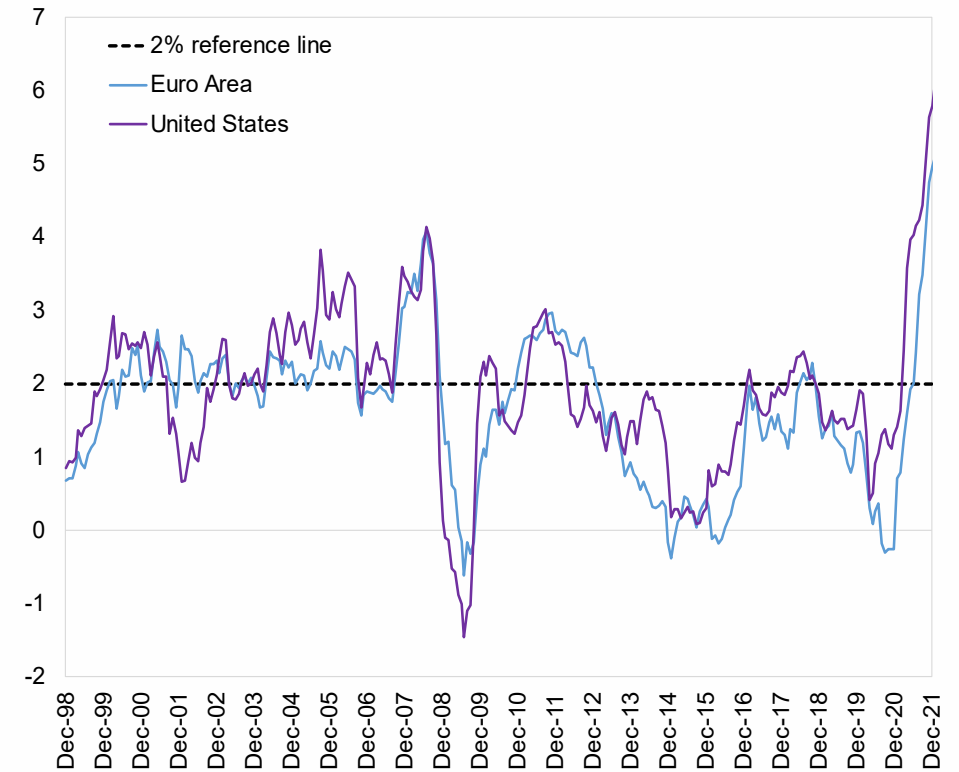
Note: The figures use Total Industrial Production for the United States (US) and the Euro Area (EA-19 Fixed Composition). For the Great Depression, the Euro Area (EA) is the average of the three major European Economies for which data was available: Germany, France and Italy. The figures are based on the methodology employed in the Eichengreen & O'Rourke paper. The last datapoint is January 2022. The figures show data for up to 23 months from the start (indicated as 100). Industrial Production was 17% and 28% less than their February 2020 level, in the US and EA, in April 2020, respectively and it had been virtually eliminated at 3% and 0.6% less in December 2020, respectively in the US and EA. The Euro area crossed its February 2020 industrial production level in November 2020 but witnessed a minor contraction in December 2020. The United States and the Euro Area are 66% or two-thirds of the Advanced Economy GDP using PPP exchange rates.

Inflation and Prices in the US & Euro Area

Price Level in the United States & Euro Area, 1999-2022 (Indexed Dec1998=100)



Inflation (y-o-y) in the United States & Euro Area and Constant 2% Inflation, 1999-2022

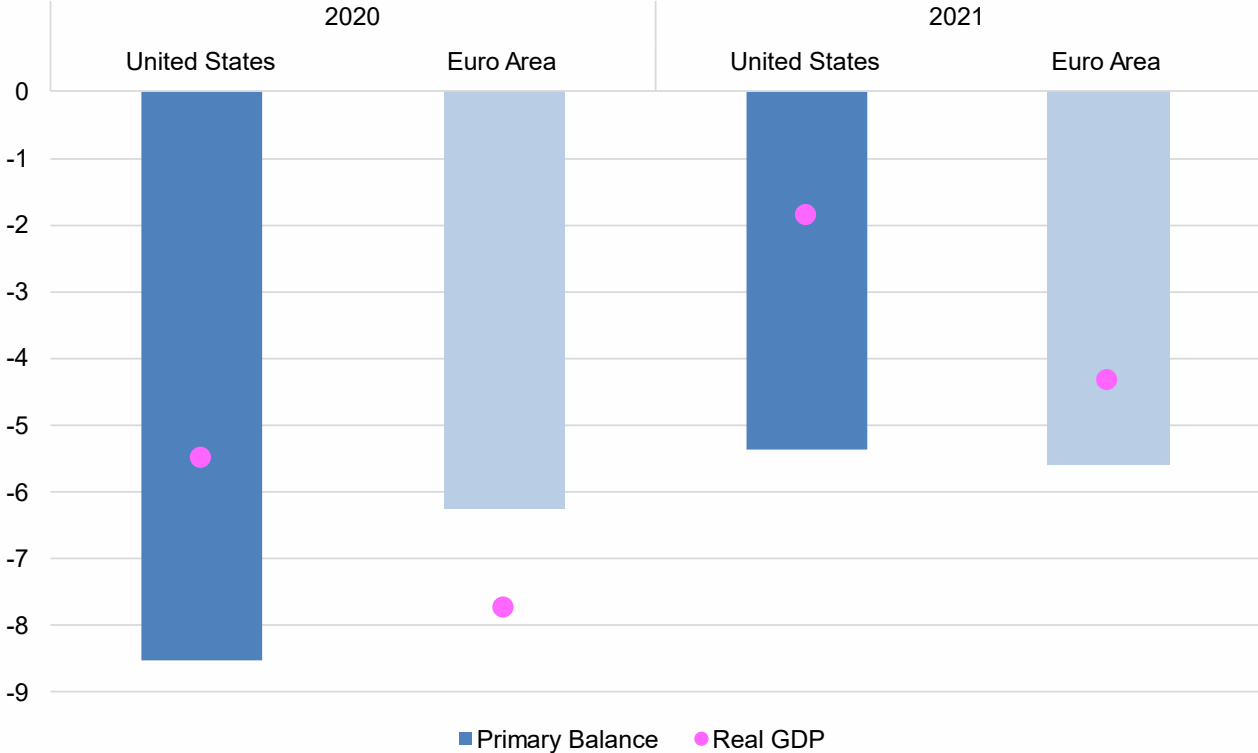


Source: Bureau of Economic Analysis (BEA)/Haver Analytics; EuroStat/Haver Analytics

Note: The figures use Personal Consumption Expenditures (PCE) for the United States (US) & Harmonized Index of Consumer Prices (HICP) for the Euro Area (EA) in monthly frequency. The last datapoint is Feb 2022. The maximum upside (vertical) deviation from the medium term (2% price stability) goal for the US and EA was in July 2008, of 4.3 points and 2 points, respectively. The (vertical) price deviation in February 2020 for the US and EA were on the downside (-6.6 points and -11.8 points, respectively). The maximum (vertical) downside deviation from the medium term (2% price stability) goal for the US and EA were in May 2020 (-8.3 points) and December 2020 (-14.7 points), respectively. As of February 2022, the price level in the US and EA are less than their medium-term goal by (-) 0.6 points and (-) 8.5 points, respectively.

Fiscal Policy in the US & Euro Area

Real GDP and Primary Balance

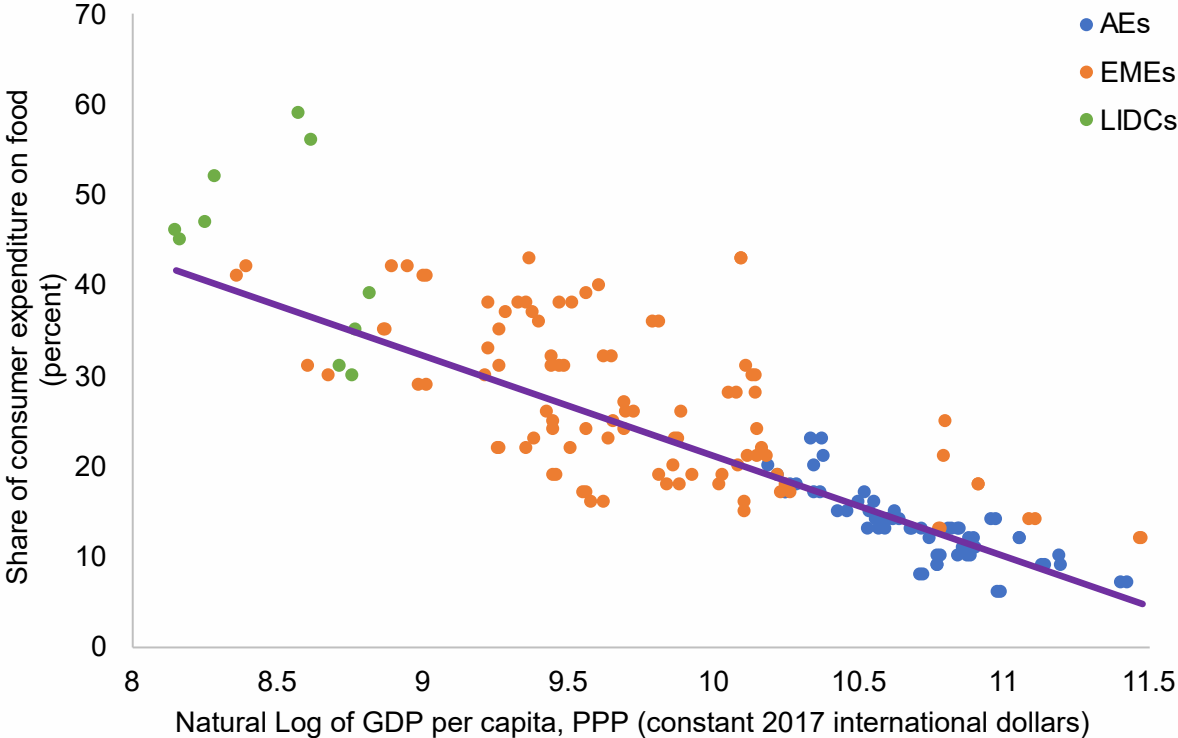


Source: IMF World Economic Outlook (WEO, Jan 2022 and Oct 2019 vintages) & Staff Calculations

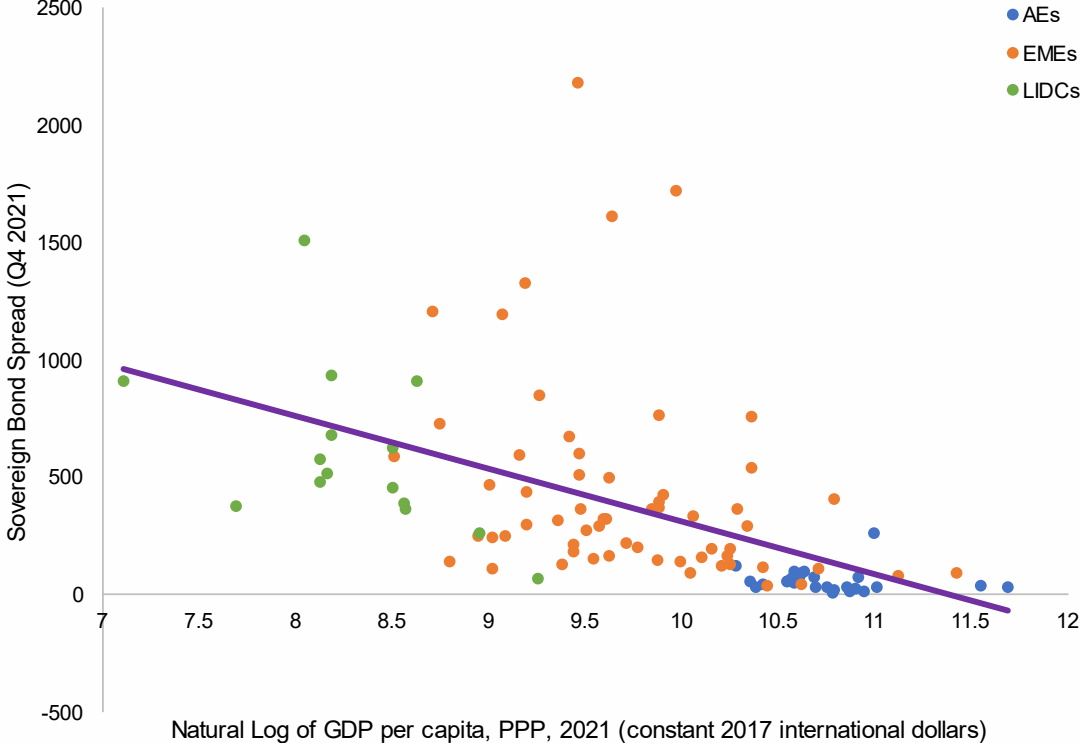
Note: Real GDP and primary balance are expressed in deviation from the pre-COVID 19 projected path as a percentage of 2019 GDP.

A Perfect Storm in Low-income Countries

Food Spending and Income



Credit Spreads and Income



Source: USDA; World Bank; IMF WEO; JP Morgan EMBIG Sovereign Spreads; Bloomberg Finance & IMF Staff Calculations

Spread Level	Weighted Average (WA) Spread of all bonds > 1y maturity
< 200	Low credit risk
200 to 700	Performing
700 to 1000	Stressed
> 1000	Distressed